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7 UNITED STATES DISTRICT COURT
8 WESTERN DISTRICT OF WASHINGTON
9 AT SEATTLE

10 AIRBUS S.A.S.,

11 Plaintiff,

12 v.

13 AVIATION PARTNERS, INC.,

14 Defendant.

CASE NO. C12-1228JLR

ORDER GRANTING MOTION
TO COMPEL ARBITRATION
AND STAY LITIGATION

15 This matter comes before the court on Plaintiff Airbus S.A.S.'s ("Airbus") motion
16 to compel arbitration of counterclaims and stay litigation of those claims pending
17 arbitration (Dkt. # 62). The court, being fully advised of the facts and relevant law and
18 having reviewed the briefing of the parties, GRANTS the motion, orders the parties to
19 arbitrate the counterclaims according to the terms of their agreement, and orders a stay on
20 litigation of Aviation Partners, Inc.'s ("API") counterclaims.

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I. FACTUAL BACKGROUND

Airbus is an aircraft manufacturer based in France. (Compl. (Dkt. # 1) ¶ 2.) API is a Washington-based company that designs and produces “winglets” for use on aircraft. (*Id.* ¶3.) A “winglet” is a device that attaches to the tip of an airplane wing to improve aerodynamics and fuel efficiency. (Mot. (Dkt. # 62) at 3.) In 2006, Airbus and API entered into a Non-Disclosure Agreement (“NDA”) under which they agreed to share otherwise-confidential information related to winglet design with the goal of designing a winglet for certain Airbus aircrafts. (*Id.* at 3.) For years the agreement fostered exchanges of information between the two companies, helping Airbus create its own winglet device, the “Sharklet.” (*Id.* at 3-4.) But in 2011, the relationship soured when API claimed that the “Sharklet” was virtually identical to API’s winglet designs, thereby violating the terms of the NDA. (*Id.* at 4.) In anticipation of litigation, Airbus asked the United States District Court for the Western District of Texas for a declaratory judgment that it was not infringing any of API’s patents. (*See* Compl.) Airbus filed this suit on December 1, 2011. (*See* Compl.) Seven and a half months later, following a motion to dismiss, API successfully moved to transfer the declaratory judgment action to this court, and shortly thereafter API filed two counterclaims alleging that Airbus violated the terms of the NDA. (*See* Answer (Dkt. # 50).) Six days later, Airbus filed this motion to compel arbitration of the counterclaims in accordance with the terms of the NDA. (*See* Mot.)

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II. ANALYSIS

Airbus' motion is based on an arbitration clause contained in the NDA under which the parties agreed to arbitrate disputes "arising out of or in connection with" the NDA:

This NDA shall be governed by and construed in accordance with the laws of England.

In the event of any dispute arising out of or in connection with the subject matter of this NDA, the Parties shall first endeavor to resolve such dispute amicably within thirty (30) days after the date of the notification by one Party of such dispute to the other Party. Should the Parties fail to do so, then such dispute shall be determined and settled by arbitration under the current Rules of Arbitration of the International Chamber of Commerce of Paris. The number of arbitrators shall be three (3). The place of arbitration shall be London. The language to be used in the arbitral proceedings shall be English. The arbitration award shall be final and binding on the Parties.

Either Party may seek injunctive relief in any court of competent jurisdiction against improper use or disclosure of Confidential Information.

(Mot. at 4.)

The issue before the court is whether the court should compel arbitration of API's counterclaims as the NDA seems to require. Neither party has asked the court to compel arbitration or stay litigation of Airbus' claim for declaratory judgment regarding patent infringement, so the court will not address that issue.

As the parties' briefing makes clear, this dispute boils down to whether Airbus waived its NDA-created arbitration rights by filing a declaratory judgment action in federal district court in Texas. The court finds that Airbus did not waive its arbitration rights. Therefore, the parties must arbitrate API's counterclaims in accordance with the terms of the NDA.

1 **A. Governing Law**

2 The Federal Arbitration Act (“FAA”) governs this dispute because the NDA is “a
3 contract evidencing a transaction involving commerce.” *See* 9 U.S.C. § 2; *Chiron v.*
4 *Ortho Diagnostic Sys., Inc.*, 207 F.3d 1126, 1130 (9th Cir. 2000). Under the FAA,
5 arbitration agreements “shall be valid, irrevocable, and enforceable.” 9 U.S.C. § 2.
6 Federal law governs a court’s decision whether to compel arbitration even if, under a
7 choice of law provision, the agreement is to be construed under the laws of another
8 jurisdiction. *See Chiron*, 207 F.3d at 1130-31 (applying federal law to decide whether to
9 compel arbitration despite state choice-of-law provision that governed contract).

10 The FAA limits district courts’ discretion in ruling on a motion to compel
11 arbitration. A district court must not address the merits of the underlying dispute, and
12 can make only three determinations: (1) whether there is an agreement to arbitrate; (2)
13 whether there are arbitrable claims; and (3) whether arbitration has been waived. *Chiron*,
14 207 F.3d at 1130; *Daisy Mfg. Co., Inc. v. NCR Corp.*, 29 F.3d 389, 392 (8th Cir. 1994).
15 If these conditions are met, the district court “shall make an order directing the parties to
16 proceed to arbitration.” 9 U.S.C. § 4.

17 Here, the parties do not dispute (1) or (2), nor could they. There is plainly an
18 arbitration clause in the NDA, and API’s counterclaims arise directly out of the NDA and
19 are therefore arbitrable. (*See* Mot. at 9; Resp. (Dkt. # 65) at 1.) Thus, the only issue is
20 whether Airbus waived its right to arbitrate.

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1 **B. Requirements of Waiver**

2 An examination of waiver must be conducted in light of the strong federal policy
 3 favoring enforcement of arbitration agreements. *Fisher v. A.G. Becker Paribas, Inc.*, 791
 4 F.2d 691, 694 (9th Cir. 1986). Waiver of arbitration rights is disfavored, and a party
 5 seeking to establish waiver accordingly “bears a heavy burden of proof.” *Id.*; *Britton v.*
 6 *Co-op Banking Grp.*, 916 F.2d 1405, 1412 (9th Cir. 1990). Indeed, courts resolve any
 7 doubts concerning waiver in favor of arbitrating the dispute. *Fisher*, 791 F.2d at 694. In
 8 addition, these pro-arbitration policies apply “with special force in the field of
 9 international commerce.” *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473
 10 U.S. 614, 631 (1985).

11 To establish waiver, the party claiming that arbitration rights have been waived
 12 must satisfy a three-part test, showing that: (1) the other party had knowledge of an
 13 existing right to compel arbitration; (2) that party acted inconsistently with its existing
 14 right; and (3) the inconsistency caused prejudice. *Britton*, 916 F.2d at 1412. The parties
 15 here do not dispute (1), but do dispute both (2) and (3).

16 **C. API Does Not Carry Its “Heavy Burden” of Showing Waiver**

17 The court concludes that API has failed to carry its burden of demonstrating
 18 waiver. API has shown neither “inconsistent actions” by Airbus, nor resulting prejudice
 19 to API.

20 **1. API Has Not Shown “Inconsistent Actions.”**

21 There is no concrete test in the Ninth Circuit to determine whether or not actions
 22 taken by a party are “inconsistent” with the right to arbitrate. However, in light of the

1 fact that waiver is disfavored, the Ninth Circuit has been hesitant to conclude that a
2 party's actions are inconsistent. *See, e.g., Britton*, 916 F.2d at 1405 (no inconsistent
3 actions where parties litigated because right to arbitrate was not initially clear); *Fisher*,
4 791 F.2d at 694-95 (no inconsistent action where party avoided discovery and moved to
5 stay litigation). Indeed, the Ninth Circuit has been willing to find inconsistent actions
6 only in situations where inconsistency is readily apparent from the facts. In *Van Ness*
7 *Townhouses v. Mar Industries Corp.*, the Court found that a party had acted
8 inconsistently where the party made a "conscious decision to continue to seek judicial
9 judgment on the merits of [the] arbitrable claims," and chose to "litigate actively the
10 entire matter—including pleadings, motions, and approving a pre-trial conference
11 order—and did not move to compel arbitration until more than two years after the
12 appellants brought the action." 862 F.2d 754, 759 (9th Cir. 1998). Likewise, the Ninth
13 Circuit found inconsistent actions in *United Computer Systems, Inc. v. AT&T Corp.*
14 where a party refused to pay a \$2,000 arbitration fee and instead filed a declaratory
15 judgment action in state court and demanded a jury trial but later requested arbitration.
16 298 F.3d 756, 765 (9th Cir. 2002).

17 None of those facts are present here. It is true that Airbus initiated this declaratory
18 judgment action, (*see* Compl.) but it did not initiate API's counterclaims (*see* Answer).
19 Airbus has not made any effort to litigate API's counterclaims in any non-arbitral forum,
20 nor is there any evidence that Airbus made a conscious decision to seek judicial judgment
21 of those counterclaims. Indeed, Airbus moved to compel arbitration of API's
22 counterclaims only six days after they were filed. (*See* Mot.) Furthermore, Airbus

1 notified API of its desire to arbitrate API's counterclaims on two separate occasions
2 before the counterclaims were filed. (Resp. of Airbus in Opp. to Mot. to Dismiss (Dkt
3 # 23) at 3; Sur-Reply of Airbus in Opp. to Motion to Dismiss (Dkt. # 42) at 4.) For these
4 reasons, the court finds that Airbus' choice to litigate its declaratory judgment action but
5 arbitrate API's counterclaims is not the kind of inconsistent action that can support
6 waiver. To the extent there are any doubts about this, those doubts must be resolved in
7 favor of arbitration. *See Fisher*, 791 F.2d at 694.

8 API argues to the contrary, but in doing so it wrongly assumes that this action and
9 API's counterclaims are the same; in fact, they raise different issues. Airbus' complaint
10 is a patent infringement action asking the court to declare that Airbus is not infringing
11 API's winglet patent; Airbus asks the court to:

- 12 a. Enter judgment declaring that the claims of [API's winglet patent] are
invalid and that API is barred from asserting [its] Patent against Airbus.
- 13 b. Enter judgment declaring that Airbus has not infringed, contributed to
14 the inducement of, or induced others to infringe any claim of, the []
Patent

15 (Compl. (Dkt. # 1) at 4.) In contrast, API's counterclaims are for breach of the NDA and
16 violation of the Washington Consumer Protection Act (CPA), and seek an injunction
17 based on the terms of the NDA or the CPA; API asks the court to:

18 [E]nter an injunction either under the 2006 NDA and/or the Washington
19 State CPA enjoining Airbus from advertising, promoting, marketing,
importing, distributing, manufacturing, offering for sale, or selling its
20 Sharklet winglet or any other product that incorporates or misappropriates
API's confidential and proprietary information

21 (Answer (Dkt. # 50) at 16.) Airbus' claims and API's counterclaims raise different
22 issues.

1 Outside the Ninth Circuit, federal courts have held that it is not inconsistent to
2 initiate litigation for one claim and request arbitration for a related claim that raises
3 “different issues.” *Gingiss Int’l, Inc. v. Bormet*, 58 F.3d 328, 332 (7th Cir. 1995).
4 Federal courts have also held that it is not inconsistent to initiate litigation for one claim
5 and request arbitration for the opposing party’s counterclaims in the same suit, even if the
6 counterclaim is also arbitrable. *Comm. Union Ins. Co. v. Gilbane Bldg. Co.*, 992 F.2d
7 386, 390-91 (1st Cir. 1993).

8 These principles apply here. The court holds that API has not met its heavy
9 burden of showing that Airbus acted inconsistently with the right to arbitrate. However,
10 the court also concludes that, even if the court did find inconsistent actions here, API
11 would not establish waiver. Even if API could satisfy prong (2) of the test for waiver, it
12 fails to satisfy prong (3).

13 **2. API Has not Shown Prejudice**

14 A party seeking to prove waiver of a right to arbitrate must show that the opposing
15 party’s inconsistent actions prejudiced them. *Britton*, 916 F.2d at 1412.

16 Under controlling Ninth Circuit precedent, a party is not prejudiced by
17 “inconsistent actions” if a request for arbitration comes when the case is still in the early
18 stages and relatively few pleadings have been filed. For example, the Ninth Circuit held
19 in *United Computer Systems* that there was no prejudice where a defendant had incurred
20 substantial litigation costs but the case had only progressed to the pleading stages
21 (including a motion to dismiss). 298 F.3d at 765. Likewise, the Ninth Circuit held in
22 *Lake Communications, Inc. v. ICC Corp.* that there was no prejudice where an arbitration

1 request came after a case had been in litigation for over a year and some discovery had
2 already taken place. 738 F.2d 1473, 1477 (9th Cir. 1984); *see also Shinto Shipping Co.,*
3 *Ltd v. Fibrex & Shipping Co., Inc.*, 572 F.2d 1328, 1330 (9th Cir.1978) (no prejudice
4 even though discovery had begun). In contrast, in *Hoffman Construction Co. of Oregon*
5 *v. Active Erectors and Installers, Inc.*, the Ninth Circuit held that prejudice resulted from
6 an arbitration request that came after the case had already proceeded through all of
7 discovery, a trial, and judgment in a state court. 969 F.2d 796, 799 (9th Cir. 1992).

8 Here, API was not prejudiced by Airbus' allegedly inconsistent acts because this
9 case is still in its early stages. Just like in *United Computer Systems*, the case has not
10 progressed beyond the pleadings. 298 F.3d at 765. The only significant filings in this
11 case (other than this motion) are the complaint, the answer, API's motion to dismiss, and
12 API's motion to transfer the case. Further, just like in *Lake Communications*, the
13 litigation has lasted for approximately one year. 738 F.2d at 1477. Here, there is even
14 less prejudice than in those cases since Airbus seeks to arbitrate only counterclaims, and
15 Airbus moved to compel arbitration for those claims after only six days had passed. (*See*
16 *Mot.*) Thus, for API to show prejudice, it would have to show that it was somehow
17 harmed by the delay that occurred during this six-day window.

18 API wrongly argues that it was prejudiced by Airbus' actions because API "spent
19 significant time and money negotiating with Airbus, investigating the claims that Airbus
20 made against API, hiring local counsel in the Western District of Texas, drafting and
21 filing the motion to transfer, and drafting and filing its counterclaim." (Resp. at 8.) But
22 the Ninth Circuit expressly rejected this "substantial costs" argument in *United Computer*

1 *Systems*, holding that substantial litigation costs do not show prejudice if a case is still in
2 the pleading stages. 298 F.3d at 765. The court is bound by that decision today and will
3 adhere to it.

4 API makes two prejudice arguments, neither of which the court finds persuasive.
5 First, API argues that it would be prejudiced by having to “duplicate litigation efforts” by
6 having to litigate Airbus’ claims while simultaneously arbitrating its own counterclaims.
7 (Resp. at 8-9.) The court rejects this argument, which is not persuasive because (a)
8 litigation will not be duplicative since the counterclaims raise different issues than
9 Airbus’ patent claim; (b) to the extent the claims are similar, the Supreme Court has held
10 that courts must order arbitration even it would result in piecemeal resolution of issues,
11 *Dean Witter v. Byrd*, 470 U.S. 213, 217-20 (1985); (c) if API felt it would be overly
12 burdensome to litigate in two different forums, it could attempt to move under the NDA
13 to compel arbitration of Airbus’ declaratory judgment action; and (d) most of the
14 preparation work API does for the case (e.g., discovery) will not need to be duplicated in
15 both forums.

16 Finally, API argues that it would be prejudiced if Airbus were allowed to “forum
17 shop” by compelling arbitration. (Resp. at 9). The court rejects this argument as well.
18 Forum shopping might be a concern had Airbus originated the action in one forum then
19 sought transfer to another after some adverse ruling. That did not happen here. Airbus
20 moved to compel arbitration only of API’s counterclaims, which Airbus never brought in
21 any forum, but which instead API brought against Airbus. Further, Airbus can hardly be
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1 said to be forum shopping when it is merely seeking recourse to a forum the parties
2 mutually agreed upon well in advance of litigation.

3 **III. CONCLUSION**

4 Because API has shown neither actions inconsistent with the right to arbitrate nor
5 resulting prejudice, API has not carried its burden to show that Airbus waived its
6 arbitration rights. For the foregoing reasons, the court GRANTS Airbus' motion to
7 compel arbitration and stay litigation of API's counterclaims.

8 Dated this th25 day of October, 2012.

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11 JAMES L. ROBART
United States District Judge